

LAKE PARK MUNICIPAL UTILITIES

INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2009

LAKE PARK MUNICIPAL UTILITIES TABLE OF CONTENTS

	<u>Page No.</u>
OFFICIALS	1
INDEPENDENT AUDITORS' REPORT	2 - 3
BASIC FINANCIAL STATEMENTS:	<u>Exhibit</u>
Government-wide Financial Statements:	
Statement of Net Assets	A 4
Statement of Activities	B 5
Enterprise Fund Financial Statements:	
Statement of Fund Net Assets	C 6 - 7
Statement of Revenues, Expenses and Changes in Fund Net Assets	D 8
Statement of Cash Flows	E 9 - 10
Notes to Financial Statements	11 - 20
REQUIRED SUPPLEMENTARY INFORMATION:	
Budgetary Comparison Schedule of Revenues, Expenses and Changes in Balances - Budget and Actual	21
Notes to Required Supplementary Information - Budgetary Reporting	22
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	23 - 24
SCHEDULE OF FINDINGS	25 - 27

LAKE PARK MUNICIPAL UTILITIES

OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
(Before January 2009)		
Brent Jacobsen	Chairman	December 31, 2012
Stan Anderson	Vice-Chairman	December 31, 2008
Joni Roslansky	Secretary/Treasurer	December 31, 2010
Marie Matthiesen	Trustee	December 31, 2009
Vivian LaLone	Trustee	December 31, 2013
Todd Doeden	Public Works Director	
Linda Treharne	Municipal Clerk	
(After January 1, 2009)		
Brent Jacobsen	Chairman	December 31, 2012
Marie Matthiesen	Vice-Chairman	December 31, 2009
Joni Roslansky	Secretary/Treasurer	December 31, 2010
Carl Gochnauer	Trustee	December 31, 2014
Vivian LaLone	Trustee	December 31, 2013
Linda Treharne	Municipal Clerk	

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Lake Park Municipal Utilities

We have audited the accompanying financial statements of the business-type activities and each major fund of Lake Park Municipal Utilities (Utilities), a component unit of the City of Lake Park, as of and for the year ended June 30, 2009, which collectively comprise Lake Park Municipal Utilities' basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Utilities' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of Lake Park Municipal Utilities at June 30, 2009, and the respective changes in the funds' financial position and cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2009 on our consideration of Lake Park Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Budgetary comparison information on pages 21 and 22 is not a required part of the basic financial statements, but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Lake Park Municipal Utilities has not presented management's discussion and analysis which introduces the basic financial statements by presenting certain financial information as well as management's analytical insight on that information that the Government Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Wintner, Stone & Co., LLP

October 28, 2009

BASIC FINANCIAL STATEMENTS

LAKE PARK MUNICIPAL UTILITIES
STATEMENT OF NET ASSETS
JUNE 30, 2009

	Business-Type Activities
ASSETS:	
Cash and cash equivalents	\$ 915,821
Accounts receivable	168,615
Inventories	210,665
Other current assets	17,260
Restricted assets	62,254
Other assets	116,503
Capital assets - net of accumulated depreciation	<u>3,701,447</u>
TOTAL ASSETS	<u>5,192,565</u>
LIABILITIES:	
Accounts payable	159,109
Accrued expenses	10,037
Customer meter deposits	11,514
Long-term liabilities:	
Due or payable within one year:	
Revenue capital loan notes	150,000
Note payable	10,050
Due or payable after one year:	
Revenue capital loan notes	2,000,000
Note payable	<u>24,730</u>
TOTAL LIABILITIES	<u>2,365,440</u>
NET ASSETS:	
Invested in capital assets, net of related debt	1,516,667
Restricted for:	
Debt service	62,254
Unrestricted	<u>1,248,204</u>
TOTAL NET ASSETS	<u>\$2,827,125</u>

LAKE PARK MUNICIPAL UTILITIES
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2009

	Business-Type Activities
OPERATING REVENUES	<u>\$2,362,160</u>
OPERATING EXPENSES:	
Direct costs	1,218,973
Operating expenses	650,823
Administrative expenses	<u>82,960</u>
TOTAL OPERATING EXPENSES	<u>1,952,756</u>
OPERATING INCOME	<u>409,404</u>
NON-OPERATING REVENUES (EXPENSES):	
Interest income	21,066
Economic development contributions	(23,690)
Payments in lieu of property taxes	(46,960)
Interest expense	<u>(89,868)</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(139,452)</u>
CHANGE IN NET ASSETS	269,952
NET ASSETS BEGINNING OF YEAR	<u>2,557,173</u>
NET ASSETS END OF YEAR	<u>\$2,827,125</u>

LAKE PARK MUNICIPAL UTILITIES
STATEMENT OF FUND NET ASSETS
JUNE 30, 2009

ASSETS

	Electric Fund	Water Fund	Gas Fund	Total
CURRENT ASSETS:				
Cash (Note 2)	\$ 574,459		\$ 846,232	\$1,420,691
Accounts receivable (net) (Note 3)	119,767	\$ 23,578	25,270	168,615
Inventories	157,335	31,121	22,209	210,665
Prepaid expenses	11,882	2,042	2,519	16,443
Interest receivable	545		272	817
TOTAL CURRENT ASSETS	<u>863,988</u>	<u>56,741</u>	<u>896,502</u>	<u>1,817,231</u>
NONCURRENT ASSETS:				
Bond costs (net)	65,617	1,777		67,394
Notes receivable (Note 4)	38,804		10,305	49,109
Restricted assets:				
Revenue bond sinking fund	24,393	7,537		31,930
Principal and interest reserve		30,324		30,324
TOTAL NONCURRENT ASSETS	<u>128,814</u>	<u>39,638</u>	<u>10,305</u>	<u>178,757</u>
CAPITAL ASSETS (Note 5):				
Capital assets	4,377,636	2,245,485	688,857	7,311,978
Accumulated depreciation	(1,776,601)	(1,342,720)	(491,210)	(3,610,531)
TOTAL CAPITAL ASSETS	<u>2,601,035</u>	<u>902,765</u>	<u>197,647</u>	<u>3,701,447</u>
TOTAL ASSETS	<u>\$3,593,837</u>	<u>\$ 999,144</u>	<u>\$1,104,454</u>	<u>\$5,697,435</u>

LAKE PARK MUNICIPAL UTILITIES
STATEMENT OF FUND NET ASSETS - Continued
JUNE 30, 2009

LIABILITIES AND FUND NET ASSETS

	Electric Fund	Water Fund	Gas Fund	Total
CURRENT LIABILITIES:				
Cash deficit		\$504,870		\$ 504,870
Accounts payable	\$ 71,251	6,735	\$ 81,123	159,109
Accrued interest	6,924	643		7,567
Accrued salaries and vacation	1,270		1,200	2,470
Customer meter deposits	4,177	1,810	5,527	11,514
Current portion long-term debt	113,350	43,350	3,350	160,050
TOTAL CURRENT LIABILITIES	<u>196,972</u>	<u>557,408</u>	<u>91,200</u>	<u>845,580</u>
LONG-TERM LIABILITIES (Note 6):				
Revenue capital loan notes payable	2,070,000	80,000		2,150,000
Note payable	11,452	11,664	11,664	34,780
Less current portion above	(113,350)	(43,350)	(3,350)	(160,050)
TOTAL LONG-TERM LIABILITIES	<u>1,968,102</u>	<u>48,314</u>	<u>8,314</u>	<u>2,024,730</u>
TOTAL LIABILITIES	<u>2,165,074</u>	<u>605,722</u>	<u>99,514</u>	<u>2,870,310</u>
FUND NET ASSETS:				
Invested in capital assets, net of related debt	519,583	811,101	185,983	1,516,667
Restricted for:				
Debt service	24,393	37,861		62,254
Unrestricted	884,787	(455,540)	818,957	1,248,204
TOTAL FUND NET ASSETS	<u>1,428,763</u>	<u>393,422</u>	<u>1,004,940</u>	<u>2,827,125</u>
TOTAL LIABILITIES AND FUND NET ASSETS	<u>\$3,593,837</u>	<u>\$999,144</u>	<u>\$1,104,454</u>	<u>\$5,697,435</u>

LAKE PARK MUNICIPAL UTILITIES
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
YEAR ENDED JUNE 30, 2009

	Electric Fund	Water Fund	Gas Fund	Total
REVENUE:				
Operating revenues	<u>\$1,217,058</u>	<u>\$216,534</u>	<u>\$ 928,568</u>	<u>\$2,362,160</u>
OPERATING EXPENSES:				
Direct costs	487,462	49,754	681,757	1,218,973
Other operating expenses	365,361	152,932	132,530	650,823
Administrative expenses	<u>29,832</u>	<u>26,778</u>	<u>26,350</u>	<u>82,960</u>
TOTAL OPERATING EXPENSES	<u>882,655</u>	<u>229,464</u>	<u>840,637</u>	<u>1,952,756</u>
OPERATING INCOME (LOSS)	<u>334,403</u>	<u>(12,930)</u>	<u>87,931</u>	<u>409,404</u>
NON-OPERATING REVENUES (EXPENSES):				
Interest income	15,589	1,570	3,907	21,066
Economic development contributions	(11,845)		(11,845)	(23,690)
Payments in lieu of property taxes	(34,757)	(3,467)	(8,736)	(46,960)
Interest expense	<u>(84,950)</u>	<u>(4,600)</u>	<u>(318)</u>	<u>(89,868)</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(115,963)</u>	<u>(6,497)</u>	<u>(16,992)</u>	<u>(139,452)</u>
CHANGE IN FUND NET ASSETS	218,440	(19,427)	70,939	269,952
FUND NET ASSETS BEGINNING OF YEAR	<u>1,210,323</u>	<u>412,849</u>	<u>934,001</u>	<u>2,557,173</u>
FUND NET ASSETS END OF YEAR	<u>\$1,428,763</u>	<u>\$393,422</u>	<u>\$1,004,940</u>	<u>\$2,827,125</u>

LAKE PARK MUNICIPAL UTILITIES
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2009

	Electric Fund	Water Fund	Gas Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers	\$1,210,234	\$ 215,650	\$978,826	\$2,404,710
Cash paid to suppliers	(615,101)	(102,490)	(750,831)	(1,468,422)
Cash paid to employees	(164,252)	(57,945)	(75,749)	(297,946)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>430,881</u>	<u>55,215</u>	<u>152,246</u>	<u>638,342</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Economic development contributions	(11,845)		(11,845)	(23,690)
Payments in lieu of property taxes	(34,757)	(3,467)	(8,736)	(46,960)
NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES	<u>(46,602)</u>	<u>(3,467)</u>	<u>(20,581)</u>	<u>(70,650)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition and construction of capital assets	(30,359)	(24,594)	(20,191)	(75,144)
Principal paid on capital loan notes	(105,000)	(35,000)		(140,000)
Principal paid on note payable	(5,414)	(5,202)	(5,202)	(15,818)
Interest paid	(84,950)	(4,600)	(318)	(89,868)
Decrease in sinking and reserve funds ..	(1,667)	(3,570)		(5,237)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(227,390)</u>	<u>(72,966)</u>	<u>(25,711)</u>	<u>(326,067)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Principal received on notes receivable ...	29,051		550	29,601
Interest received from investments	<u>17,358</u>	<u>1,570</u>	<u>3,907</u>	<u>22,835</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>46,409</u>	<u>1,570</u>	<u>4,457</u>	<u>52,436</u>
NET CHANGE IN CASH.....	203,298	(19,648)	110,411	294,061
CASH (CASH DEFICIT) BEGINNING OF YEAR	<u>371,161</u>	<u>(485,222)</u>	<u>735,821</u>	<u>621,760</u>
CASH (CASH DEFICIT) END OF YEAR	<u>\$ 574,459</u>	<u>\$(504,870)</u>	<u>\$846,232</u>	<u>\$ 915,821</u>

LAKE PARK MUNICIPAL UTILITIES
STATEMENT OF CASH FLOWS - Continued
YEAR ENDED JUNE 30, 2009

	<u>Electric Fund</u>	<u>Water Fund</u>	<u>Gas Fund</u>	<u>Total</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Income from operations	\$334,403	\$(12,930)	\$ 87,931	\$409,404
Adjustments to reconcile income from operations to net cash provided by operating activities:				
Depreciation	119,447	67,842	18,249	205,538
Amortization	4,469	888		5,357
(Increase) decrease in:				
Accounts receivable	(8,180)	(968)	47,784	38,636
Inventory	(28,280)	4,069	(43)	(24,254)
Prepaid expenses	4,000	4,975	4,407	13,382
Increase (decrease) in:				
Accounts payable	2,396	(8,745)	(8,556)	(14,905)
Accrued salaries and vacation	1,270			1,270
Customer deposits	<u>1,356</u>	<u>84</u>	<u>2,474</u>	<u>3,914</u>
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 <u>\$430,881</u>	 <u>\$ 55,215</u>	 <u>\$152,246</u>	 <u>\$638,342</u>
 SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:				
Acquisition and construction of capital assets	\$47,225	\$41,460	\$37,057	\$125,742
Less proceeds from direct financing	<u>16,866</u>	<u>16,866</u>	<u>16,866</u>	<u>50,598</u>
Cash used to acquire and construct capital assets	<u>\$30,359</u>	<u>\$24,594</u>	<u>\$20,191</u>	<u>\$ 75,144</u>

LAKE PARK MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The financial statements of Lake Park Municipal Utilities (Utilities) include the Electric, Water, and Gas enterprise funds which provide services to the residents of the City of Lake Park. Lake Park Municipal Utilities is governed by a five-member board of trustees, which is appointed by the Mayor of the City of Lake Park. Based on the criteria set forth by the Governmental Accounting Standards Board, Lake Park Municipal Utilities is considered a component unit of the City of Lake Park. However, the City's financial statements cover the primary government only; therefore it does not include financial information concerning the Utilities.

For financial reporting purposes, the Lake Park Municipal Utilities has included all funds, organizations, agencies, boards, commissions, and authorities. The Utilities has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Utilities are such that exclusion would cause the Utilities' financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Utilities to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Utilities. Lake Park Municipal Utilities has no component units.

Government-wide and Fund Financial Statements

The Statement of Net Assets and the Statement of Activities report information on all of the activities of the Utilities. For the most part, the effect of interfund activity has been removed from these statements.

The Statement of Net Assets presents the Utilities' assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories.

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

LAKE PARK MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and (2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program revenues are reported instead as general revenues.

Major individual enterprise funds are reported as separate columns in the Fund Financial Statements. The Utilities report the following major enterprise funds:

Electric Fund - the Electric Fund accounts for the operation and maintenance of the electric distribution system.

Water Fund - The Water Fund accounts for the operation and maintenance of the water distribution system.

Gas Fund - The Gas Fund accounts for the operation and maintenance of the gas distribution system.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The accounts of Lake Park Municipal Utilities are organized on the basis of funds, each of which is considered to be a separate accounting entity. The Utilities' financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

In reporting the financial activity of its enterprise funds, the Utilities apply all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

The Utilities distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Utilities' principal ongoing operations. The principal operating revenues of the Utilities are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The Utilities has evaluated subsequent events through the date of the auditors' report, which is the date the financial statements were available to be issued.

LAKE PARK MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Cash

For the purposes of the statement of cash flows, the Utilities considers as cash all currency on hand and unrestricted demand and other deposit accounts with banks or other financial institutions.

Accounts Receivable

Accounts receivable and revenue are recorded at the time the service is billed. Unbilled usage for service consumed between periodic scheduled billing dates is not considered to have a material effect on the financial statements. Accounts are reviewed annually; accounts considered uncollectable are written off to the allowance for doubtful accounts.

Inventories

Inventories are valued at the lower of cost or market on a first-in, first-out (FIFO) basis. Inventories are recorded as expenses or capitalized, if applicable, when consumed rather than when purchased.

Restricted Assets

Funds set aside for payment of the Utilities' revenue notes are classified as restricted since their use is restricted by applicable note indentures.

Income Taxes

The Utilities is exempt from federal and state income taxes because it is a governmental entity organized under the provisions of Chapter 388 of the Code of Iowa.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. DEPOSITS AND INVESTMENTS

The Utilities' deposits in banks at June 30, 2009 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Utilities is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high-rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Utilities had no assets classified as investments at June 30, 2009.

LAKE PARK MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2009

3. ACCOUNTS RECEIVABLE

Accounts receivable are reported net of allowance for doubtful accounts as follows:

	Electric Fund	Water Fund	Gas Fund
Accounts receivable - customers	\$121,167	\$23,928	\$26,670
Less - allowance for doubtful accounts	<u>1,400</u>	<u>350</u>	<u>1,400</u>
Accounts receivable (net)	<u>\$119,767</u>	<u>\$23,578</u>	<u>\$25,270</u>

4. NOTES RECEIVABLE

In 1991, Lake Park Municipal Utilities loaned Northern Iowa Die Casting (NIDC Corp.) of Lake Park, Iowa \$165,000. Interest only was payable annually until 2002, at which time \$17,000 plus interest at 7% shall be due each and every year thereafter until fully paid. The loan is secured by a mortgage on the land and the building. Due to certain economic conditions attained by NIDC Corp., \$40,000 was forgiven each year during the years ended June 30, 1996 and June 30, 2002.

With respect to the above note, Lake Park Municipal Utilities has agreed to finance the interest paid by NIDC Corp. by making contributions to the Lake Park Development Corporation, who in return, will provide NIDC Corp. with funds sufficient to service the interest.

Lake Park Municipal Utilities loaned \$165,000 to the City of Lake Park, Iowa in 1991. Interest at 7% is payable semi-annually, over the life of the loan, with annual principal payments of \$15,000 beginning June 1, 2002 through 2007 and annual principal payments of \$20,000 on June 1, 2008 through 2010.

In 1995, Lake Park Municipal Utilities loaned \$30,000 to Silver Lake Apartments, Limited Partnership, a housing project for senior citizens. The note is to be paid back over fifteen years at an annual interest rate of 3% and matures on September 1, 2010. The note is secured by the buildings, personal property and revenues of the partnership. The payments are to be made from the partnership's surplus cash as defined in the promissory note.

The balance of these notes on June 30, 2009 is as follows:

Electric Fund:	
NIDC Corp.	\$ 8,500
City of Lake Park	20,000
Silver Lake Apartments	<u>10,304</u>
Total	<u>\$38,804</u>

Gas Fund:	
Silver Lake Apartments	<u>\$10,305</u>

LAKE PARK MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2009

5. CAPITAL ASSETS

Property, plant, and equipment are stated at cost. The report sets forth the original cost of the assets and accumulated depreciation thereon, based on depreciation rates commensurate with the average normal useful life of the various components of the plant and system. Subsequent additions to the plant and system are recorded on the basis of materials and direct labor costs only and no overhead to cover such items as payroll taxes, materials, handling and transportation has been capitalized.

Interest costs are capitalized when incurred on debt where proceeds were used to finance the construction of assets. Interest earned on proceeds of tax-exempt borrowing arrangements restricted to the acquisition of qualifying assets is offset against interest costs in determining the amount to be capitalized. The Utilities had no capitalized interest during the year.

Replacements and betterments of capital assets are charged to capital assets. Routine maintenance and repairs are charged to expense as incurred.

Depreciation rates have been applied on a straight-line basis. Estimated useful lives, in years, for depreciable assets are as follows:

Building and plant	10 - 40
Equipment	5 - 15
Distribution System	20 - 40
Land Improvements	15

Capital assets activity for the year was as follows:

Electric Utility	<u>Balance at July 1, 2008</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at June 30, 2009</u>
Capital assets:				
Land and improvements	\$ 11,500			\$ 11,500
Buildings	1,109,405			1,109,405
Equipment	519,878	\$ 28,345		548,223
Distribution system	<u>2,689,628</u>	<u>18,880</u>		<u>2,708,508</u>
Total capital assets	<u>4,330,411</u>	<u>47,225</u>		<u>4,377,636</u>
Less accumulated depreciation for:				
Buildings	120,039	27,949		147,988
Equipment	401,627	16,065		417,692
Distribution system	<u>1,135,488</u>	<u>75,433</u>		<u>1,210,921</u>
Total accumulated depreciation	<u>1,657,154</u>	<u>119,447</u>		<u>1,776,601</u>
Total capital assets, net	<u>\$2,673,257</u>	<u>\$(72,222)</u>		<u>\$2,601,035</u>

Electric transmission equipment with an estimated cost of \$7,520 is included in the balance for the distribution system.

LAKE PARK MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2009

5. CAPITAL ASSETS - Continued

Water Utility	<u>Balance at July 1, 2008</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at June 30, 2009</u>
Capital assets:				
Land and improvements	\$ 35,006			\$ 35,006
Buildings	1,104			1,104
Equipment	161,851	\$ 26,866		188,717
Distribution system	<u>2,006,064</u>	<u>14,594</u>		<u>2,020,658</u>
Total capital assets	<u>2,204,025</u>	<u>41,460</u>		<u>2,245,485</u>
Less accumulated depreciation for:				
Land and improvements	13,155	49		13,204
Buildings	745	55		800
Equipment	146,266	5,796		152,062
Distribution system	<u>1,114,712</u>	<u>61,942</u>		<u>1,176,654</u>
Total accumulated depreciation	<u>1,274,878</u>	<u>67,842</u>		<u>1,342,720</u>
Total capital assets, net	<u>\$ 929,147</u>	<u>\$(26,382)</u>		<u>\$ 902,765</u>
 Gas Utility	 <u>Balance at July 1, 2008</u>	 <u>Increases</u>	 <u>Decreases</u>	 <u>Balance at June 30, 2009</u>
Capital assets:				
Land and improvements	\$ 2,061			\$ 2,061
Equipment	203,464	\$ 26,866		230,330
Distribution system	<u>446,275</u>	<u>10,191</u>		<u>456,466</u>
Total capital assets	<u>651,800</u>	<u>37,057</u>		<u>688,857</u>
Less accumulated depreciation for:				
Equipment	177,643	8,512		186,155
Distribution system	<u>295,318</u>	<u>9,737</u>		<u>305,055</u>
Total accumulated depreciation	<u>472,961</u>	<u>18,249</u>		<u>491,210</u>
Total capital assets, net	<u>\$178,839</u>	<u>\$ 18,808</u>		<u>\$197,647</u>

6. LONG-TERM DEBT

A summary of changes in long-term liabilities for the year ended June 30, 2009 is as follows:

	<u>Balance at June 30, 2008</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at June 30, 2009</u>	<u>Due Within One Year</u>
Electric revenue refunding capital loan notes	\$2,175,000		\$105,000	\$2,070,000	\$110,000
Water revenue capital loan notes	115,000		35,000	80,000	40,000
Note payable		<u>\$50,597</u>	<u>15,817</u>	<u>34,780</u>	<u>10,050</u>
	<u>\$2,290,000</u>	<u>\$50,597</u>	<u>\$155,817</u>	<u>\$2,184,780</u>	<u>\$160,050</u>

LAKE PARK MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2009

6. LONG-TERM DEBT - Continued

Electric Fund Revenue Refunding Capital Loan Notes

On March 11, 2008, the Utility issued electric revenue refunding capital loan notes in the amount of \$2,310,000. The notes bear interest of 3.82% and mature in varying annual amounts, ranging from \$110,000 to \$185,000, with the final maturity due June 1, 2023. The notes are secured by future net revenues of the Electric Utility. The resolution providing for the issuance of the notes provides for the creation of a Sinking Fund, into which shall be set aside an amount equal to the amount of annual principal and interest coming due on those bonds.

A summary of the Electric Fund's June 30, 2009 long-term indebtedness is as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 110,000	\$ 79,074	\$ 189,074
2011	120,000	74,872	194,872
2012	125,000	70,288	195,288
2013	130,000	65,513	195,513
2014	135,000	60,547	195,547
2015 - 2019	745,000	221,942	966,942
2020 - 2023	<u>705,000</u>	<u>68,569</u>	<u>773,569</u>
TOTAL	<u>\$2,070,000</u>	<u>\$640,805</u>	<u>\$2,710,805</u>

Water Revenue Capital Loan Notes

On December 1, 2001, the Utility issued water revenue capital loan notes in the amount of \$300,000. The notes bear interest rates at 3.0% to 4.0% and mature in annual amounts of \$40,000 with the final maturity due June 1, 2011. The resolution providing for the issuance of the revenue notes provides for the creation of a Sinking Fund into which there shall be set aside an amount sufficient to pay the annual principal and interest coming due on those bonds, and a Reserve Fund, which is established at the minimum required amount. The capital loan notes are secured by future net revenues of the Water Utility.

A summary of the Water Fund's long-term indebtedness follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$40,000	\$3,200	\$43,200
2011	<u>40,000</u>	<u>1,600</u>	<u>41,600</u>
TOTAL	<u>\$80,000</u>	<u>\$4,800</u>	<u>\$84,800</u>

LAKE PARK MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2009

6. LONG-TERM DEBT - Continued

Note Payable

At June 30, 2009 the Utilities had an equipment contract payable in annual installments of \$11,556 with a maturity date of September 1, 2012. The contract bears interest at 4.5% and is secured by the equipment purchase. The contract liabilities are shared equally amongst the electric, water and gas funds of the Utilities.

Future maturities of the contract as of June 30, 2009 are as follows:

<u>Year Ending June 30,</u>	<u>Electric Fund</u>	<u>Water Fund</u>	<u>Gas Fund</u>	<u>Total</u>
2010	\$ 3,350	\$ 3,350	\$ 3,350	\$10,050
2011	3,476	3,476	3,476	10,428
2012	3,633	3,633	3,633	10,899
2013	<u>993</u>	<u>1,205</u>	<u>1,205</u>	<u>3,403</u>
TOTAL	<u>\$11,452</u>	<u>\$11,664</u>	<u>\$11,664</u>	<u>\$34,780</u>

7. PENSION AND RETIREMENT BENEFITS

The Utilities contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 4.10% of their annual covered salary and the Utilities is required to contribute 6.35% of covered salary. Contribution requirements are established by state statute. The Utilities' contribution to IPERS for the years ended June 30, 2009, 2008 and 2007 were \$15,361, \$9,112, and \$8,871 respectively, equal to the required contributions for each year.

8. COMPENSATED ABSENCES

The Utilities' employees accumulate a limited amount of earned but unused vacation and compensatory time hours for subsequent use or for payment upon termination, retirement or death. A liability is recorded when incurred in the government-wide and enterprise fund financial statements and computed based on rates of pay in effect at June 30, 2009.

Employees also accumulate a limited amount of earned but unused sick leave. An employee does not receive any pay for sick leave upon termination, retirement or death. Since the amount of sick leave to be used is not determinable, no liability has been accrued.

LAKE PARK MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2009

9. ECONOMIC DEVELOPMENT CONTRIBUTIONS

By authorization of the Board of Trustees, funds were expended for economic development benefiting the City of Lake Park, Iowa and Lake Park Municipal Utilities.

10. PAYMENTS IN LIEU OF PROPERTY TAXES

By resolution of the Board of Trustees, voluntary payments in lieu of property taxes are made to the City of Lake Park, Iowa. Currently, payments approximate the City's utility usage.

11. RATES

The Utilities' rates are established by the Board of Trustees and, as a municipal system, are not subject to the regulation of the Utilities Division of the Department of Commerce of the State of Iowa.

12. LOCAL GOVERNMENT RISK POOL

Lake Park Municipal Utilities is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 577 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 200 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

LAKE PARK MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2009

12. LOCAL GOVERNMENT RISK POOL - Continued

Lake Park Municipal Utilities' property and casualty contributions to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. Lake Park Municipal Utilities' contributions to the Pool for the year ended June 30, 2009 was \$21,924.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$10,000,000 in aggregate per year. For members requiring specific coverage from \$3,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured by The Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. The Utilities does not report a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2009, no liability has been recorded in the Utilities' financial statements. As of June 30, 2009, settled claims have not exceeded the risk pool or reinsurance company coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100% of its casualty capital contributions. However, the refund is reduced by an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

Lake Park Municipal Utilities also carries commercial insurance purchased from other insurers for coverage associated with workers' compensation. The Utilities assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

REQUIRED SUPPLEMENTARY INFORMATION

LAKE PARK MUNICIPAL UTILITIES
BUDGETARY COMPARISON SCHEDULE OF
REVENUES, EXPENSES, AND CHANGES IN BALANCES - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2009

	<u>Actual</u>	<u>Budgeted Amounts</u>		<u>Final to Actual Variance</u>
		<u>Original</u>	<u>Final</u>	
REVENUE:				
Charges for services	\$2,362,160	\$2,073,650	\$2,073,650	\$288,510
Non-operating	21,066	166,400	166,400	(145,334)
TOTAL REVENUE	<u>2,383,226</u>	<u>2,240,050</u>	<u>2,240,050</u>	<u>143,176</u>
EXPENSES:				
Electric	1,014,207	1,057,450	1,057,450	43,243
Water	237,531	217,700	291,800	54,269
Gas	861,536	914,650	1,047,275	185,739
TOTAL EXPENSES	<u>2,113,274</u>	<u>2,189,800</u>	<u>2,396,525</u>	<u>283,251</u>
CHANGE IN FUND NET ASSETS	269,952	50,250	(156,475)	<u>\$426,427</u>
FUND NET ASSETS BEGINNING OF YEAR	<u>2,557,173</u>	<u>2,559,809</u>	<u>2,607,423</u>	
FUND NET ASSETS END OF YEAR	<u>\$2,827,125</u>	<u>\$2,610,059</u>	<u>\$2,450,948</u>	

LAKE PARK MUNICIPAL UTILITIES
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2009

In accordance with the Code of Iowa, the Utilities annually adopts a budget, following required public notice and hearing. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund or fund type. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. All Utilities' disbursements are included in business-type activities function. During the year, a budget amendment increased budget disbursements by \$206,725. The budget amendment is reflected in the final budgeted amounts.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Trustees
Lake Park Municipal Utilities

We have audited the financial statements of the business-type activities and each major fund of Lake Park Municipal Utilities (Utilities) as of and for the year ended June 30, 2009, which collectively comprise the Utilities' basic financial statements listed in the table of contents, and have issued our report thereon dated October 28, 2009. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lake Park Municipal Utilities' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the Utilities' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Utilities' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies, one of which we consider to be a material weakness.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Lake Park Municipal Utilities' ability to initiate, authorize, record, process or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of the Utilities' financial statements that is more than inconsequential will not be prevented or detected by the Utilities' internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the Utilities' internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item 1-A-09 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lake Park Municipal Utilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Utilities' operations for the year ended June 30, 2009 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Lake Park Municipal Utilities' responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Utilities' responses, we did not audit the Utilities' responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Lake Park and other parties to whom the Lake Park Municipal Utilities may report. This report is not intended to be and should not be used by anyone other than those specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Lake Park Municipal Utilities during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Winthru, Stave + Co., LLP

October 28, 2009

LAKE PARK MUNICIPAL UTILITIES
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2009

Part I: Findings Related to the Financial Statements

SIGNIFICANT DEFICIENCIES:

- I-A-09 Segregation of Duties - One employee handles most of the financial duties, including reconciling accounts and recording financial data. One important aspect of internal control is to prevent employees from handling duties which are incompatible.

Recommendation - We realize that it is difficult to appropriately segregate duties when the number of employees is limited. Therefore, we recommend the Board maintain their diligence in the review of the financial records.

Response - We will continue our review.

Conclusion - Response accepted.

- I-B-09 Reporting Financial Data - Reporting financial data reliably requires management to possess sufficient knowledge and expertise to select and apply accounting principles and prepare year-end financial statements, including footnote disclosures. As is a common situation in small entities, management presently is not able to entirely fulfill these responsibilities.

Recommendation - Obtaining additional knowledge through reading relevant accounting literature and attending local professional education courses would improve management's ability to prepare and take complete responsibility for reliable financial statements.

Response - Management will consider steps which could be taken to improve the ability to prepare and take complete responsibility for reliable financial statements.

Conclusion - Response accepted.

- I-C-09 Inventories - While observing inventory for the Electric Fund, we noted numerous errors in the reporting of number of units on hand for various items of inventory.

Recommendation - We recommend the Utilities implement procedures to ensure accurate reporting of inventory balances to be included in the Utilities' financial statements.

Response - We will revise our current procedures to ensure the proper amounts are recorded in the financial statements in the future.

Conclusion - Response accepted.

LAKE PARK MUNICIPAL UTILITIES
SCHEDULE OF FINDINGS - Continued
YEAR ENDED JUNE 30, 2009

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

LAKE PARK MUNICIPAL UTILITIES
SCHEDULE OF FINDINGS - Continued
YEAR ENDED JUNE 30, 2009

Part II: Other Findings Related to Required Statutory Reporting

- II-A-09 Certified Budget - Total disbursements for all funds during the year ended June 30, 2009 did not exceed the total amount budgeted.
- II-B-09 Questionable Disbursements - We noted no expenditures that did not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-09 Travel Expense - No expenditures for travel expenses of spouses of officials or employees of the Utilities were noted.
- II-D-09 Business Transactions - We noted no business transactions between the Utilities and Utilities' officials or employees.
- II-E-09 Bond Coverage - Surety bond coverage of Utilities' officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.
- II-F-09 Board Minutes - No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-G-09 Revenue Notes - The Electric and Water Utilities are in compliance with all aspects of the bond resolutions, including cash reserves. However, we noted that budgeted amounts for the Water Utility for the year ended June 30, 2010 do not maintain user rates at a level sufficient to produce net revenues to the extent required by the resolutions.
- Recommendation - The Utilities should review water user rates and increase them as needed to produce the required net revenues.
- Response - The Utilities will evaluate the water usage fees and adjust them accordingly to produce the required level of net revenues.
- Conclusion - Response accepted.
- II-H-09 Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utilities' investment policy.